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BOOK REVIEW

INNOVATION CULTURE IN CRONY CAPITALISM: DOES HOFSTEDÉ'S MODEL MATTER?

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Optimal innovation culture enables a strong entrepreneurial economy with a high innovative potential and improved competitiveness on international markets. What is it that determines innovation culture? It is almost impossible to give an unambiguous answer because there are many factors that influence its development. However, without these factors, the conditions necessary for creating a culture that fosters innovation and enables technological progress would not be optimal and could hamper economic development. While creating an optimal innovation culture is quite difficult as it takes a lot of time and effort to align and balance all its elements, it is relatively easy to put at risk all that has been achieved. A recent publication by two Croatian authors contributes to the scholarly discourse on the role and development of innovation culture, particularly having in mind the impact of crony capitalism. It is a book entitled *Innovation Culture in Crony Capitalism – Does Hofstede's Model Matter?* by Jadranka Švarc and Jasminka Lažnjak, published by the Institute of Social Sciences Ivo Pilar, Zagreb.

In addition to a short *Foreword* and *Introduction*, the book comprises three sections, which are divided into eight chapters. In the *Introduction*, the authors explain that their interest in the subject was sparked by Croatia's long-term economic recession and divergence in GDP growth compared to other "new" EU members. Such conditions impede not only the economic development but also the welfare and wellbeing of Croatian society. Furthermore, significant disparity between Croatia's regions in terms of economic development is another reason why they decided to explore regional differences in innovation culture using the well-known Hofstede's cultural model. This model is probably the most popular model for analysing cultural impacts on economic and social development. The main goal of the book is to enhance the understanding of the role and importance of cultural factors that determine regional innovation capacities and development. By applying Hofstede's cultural model, the authors wanted to discern whether an inclination to individualism or collectivism, masculinity or femininity, authoritarianism or liberalism, orientation to future or immediate satisfaction of desires, etc. is related to innovativeness and the development of Croatia's regions and the country as a whole.

In the first part titled *Theoretical background*, based on their review of numerous research studies, the authors explain the importance of innovation and how it is linked with the innovation culture. In the

1990s, innovation experienced a remarkable boom thanks to the emergence of the knowledge economy, and became a buzzword, a grand concept which drives technical and technological development as well as economic growth, and helps countries to overcome major socio-economic problems. There are numerous interrelationships between innovation and creativity, and although in the cultural economy every product can be deemed an innovation, this relationship is an assurance for the success in the market or with the audience. Creativity includes new knowledge, whereas innovation may not be creative and can be gradual. The main characteristic of innovation is the application of new ideas or creativity to achieve commercial results. Creativity is not sufficient but it is a necessary condition for innovation. In modern society, innovation is no longer rooted in scientific and technological knowledge but aligned with creative activities. They are encouraged by the growth of the creative economy, which brings together creativity, knowledge, and innovation.

The widespread distribution of innovation, the emergence and ubiquitous use of ICT and the growth of innovative undertakings enable the creation of the entrepreneurial economy. While in the previously dominant concept of innovation system, innovation preceded entrepreneurial activity, in the entrepreneurial economy the order is reversed: innovation comes after entrepreneurial activity because it cannot be generated and commercialised without them. Over the last twenty years or so, public and academic interest has moved from the innovation culture to entrepreneurial culture. Consequently, there is an increasing trend towards applying the concepts of national culture to the analysis of national entrepreneurial culture, using the internationally recognised Hofstede's performance evaluation and scoring. Although national innovation culture is a frequently applied concept, a universal definition has not been developed yet. Švarc and Lažnjak believe that this can be explained by two factors: first, national innovation culture is usually replaced by the concept of organisational or corporate culture, and second, national innovation culture is deemed as a derivative of national culture. In such circumstances, *some selected elements of national culture suggest a higher national propensity to innovate while others are innovation adverse* (page 61).

There are numerous definitions of innovation culture, but they essentially include norms, values and attitudes towards innovation, technology, entrepreneurial activities, business uncertainty and other factors that affect innovation behaviour. The interpretation of pro-innovation cultural dimensions is quite demanding because in the relevant literature there is no consensus on what the dimensions of pro-innovative cultures are. Although in different cultures the same dimensions can enhance or constrain innovations, there is a number of social values and behaviours that innovation cultures should have. These characteristics are individualism, social equality, tolerance to risk and failure, high level of social trust, zero tolerance for corruption, diversity of views, and others. It is obvious that national innovation culture depends on the socio-economic and political environment and the traits of the national culture in general. Several authors have defined various dimensions of national culture, but the most popular and widely known is Hofstede's model. Thus, the authors in this study analyse innovation culture only in relation to the dimensions of the national culture, according to the Hofstede's systematisation. The literature on organisational innovation culture is more abundant than the literature on national innovation culture, both on the theoretical and empirical levels. This is probably due to the more direct relationship between organisational culture and company's innovation and economic results than between national cultural characteristics and national innovative capacity.

Various required innovation behaviours and strata of culture assessed through dimensions of organisational culture have been discussed in the literature, such as success, openness and flexibility, internal communication, competence and professionalism, inter-functional cooperation, employee responsibility, appreciation of employees, and willingness to take risks. The values supporting innovation alone are not sufficient to increase innovation output so the norms for innovation, artefacts of innovation, and innovative behaviours should be added. Other characteristics that stimulate creativity and initiative are types of flexible management style, balance between technology and market orientation, performance appraisal, constructive competition, informal communication, democratic workplace environment, high level of freedom, low level of bureaucracy, and supportive collectivism. Furthermore, there is a strong influence of national culture

on organisational culture and management styles. Thus, the way management boards run companies is without doubt influenced by the prevailing national culture.

Geert Hofstede, a psychologist and professor of organisational anthropology and international management, well-known for his cultural dimensions theory developed on the basis of survey data on national values and comparative quantified differences between national cultures using constructed cultural dimensions. This theory proved to be a defining moment in comparative intercultural research. His book *Culture's Consequences* published in 1980 represented a new paradigm in social science research with six dimensions of innovation culture. They include *power distance*, which is related to the degree of inequality in a society and its acceptance; *uncertainty avoidance*, which is linked to the level of stress tolerated in a society faced with an unknown future; *individualism versus collectivism*, which is connected to the integration of people into primary groups; *masculinity versus femininity*, which is related to the division of emotional roles between women and men; *long-term versus short-term orientation* refers to the attention that society members give to the future or the present events; and finally, *indulgence versus restraint*, which is linked to the gratification versus control of basic human desires related to enjoying life.

There are numerous critiques of the Hofstede's model (inappropriate instrumentalisation of culture; the model has a simplistic concept of national culture and fails to capture the flexibility and changes of culture over time; it ignores within-country cultural heterogeneity; questionable relevance of the data in a contemporary environment, etc.). However, there are also many advocates of this approach, who have implemented it in various surveys and on different levels. Although there are significant differences in various survey results, they all suggest a strong correlation between lower power distance (social hierarchy) and higher individualism with the national innovativeness measured by the invention patents granted. Furthermore, researchers have found a strong positive impact of uncertainty acceptance and individualism on the achievement of high rates of innovation. Firms located in high power distance countries show a higher innovation index than firms based in low power distance countries. Similarly, firms based in collectivistic countries invest significantly more in innovation inputs,

achieve better results in innovation processes and display a higher innovation index than those from individualist countries, although in some circumstances collectivism could prevent an innovation breakthrough. This part of the book ends with the note on the regions and regional cultural differences in Croatia.

The second part of the book titled *Empirical research* explains the details, purpose and aim of the research on the innovative culture in Croatia. Although Croatian government has made an effort to develop the Croatian innovation system and innovation policy, it was not really a priority on the government policy agendas. Often, the focus was mainly on other political and social issues, which is why innovation policy has had little impact on innovation and economic growth. The aim of the research was threefold: to analyse the differences among the Croatian regions in terms of Hofstede's cultural dimensions (HCD); to describe the pro-innovation and innovation-adverse cultural dimensions of the regions; and to assess the relationship between HCD and innovation and entrepreneurial capacities of the regions. The authors remind us that the explanation of Hofstede's cultural dimensions depends on prevailing circumstances and *that results are often contradictory, meaning that there is no consistent relationship between cultural dimensions and economic prosperity or innovation/entrepreneurial intensity* (page 144). Furthermore, some dimensions can be deemed more important in terms of facilitating innovations in comparison to others. While many studies found contradictory influence of cultural dimensions on innovation, entrepreneurship and self-employment, most of them concluded that the social values and norms that encourage risk-taking, creativity, collaboration and openness are critical for innovation success.

The authors performed a survey on the influence of cultural dimensions on innovation in six Croatian regions: North Croatia, Zagreb and its surroundings, Dalmatia, Slavonia and Baranya, Istria and Lika, and Banovina. When it comes to regions, the findings of the study by Švarc and Lažnjak are in some cases quite surprising. For example, Slavonia, which is considered a traditional agrarian society that maintains strong ties with extended family, has a high degree of individualism, second only to the Zagreb region. According to the common interpretation of high uncertainty avoidance, people in such circum-

stances feel a continuous threat that must be fought, higher level of stress, expression of emotions, and neuroticism. They also score lower on subjective health and well-being. Surprisingly, uncertainty avoidance is significantly higher in Istria than in other regions of Croatia, which means that people living there are more scared of the future and try to control it by numerous rules and regulations. Indulgent societies are “happier” societies where human desires related to enjoying life and having fun are more likely to be gratified. According to the obtained results, the regions of Zagreb, Slavonia and Dalmatia are happier than the rest of Croatia, inferring that people living there are more optimistic and inclined to leisure, and are in control of their life. While these results are understandable for relatively developed and rich Zagreb and Dalmatia, the result for Slavonia is rather unexpected. Zagreb and Istria, as the two most developed regions, are the most short-term oriented societies. North Croatia generally does not have the cultural traits that would stimulate innovation. The prevailing short-term orientation in the Zagreb region reveals respect for tradition, the need to protect one’s image and inclination for personal steadiness and stability. Istria, the most developed region in Croatia after the City of Zagreb, is the least propulsive of all Croatian regions and has only two pro-innovation cultural dimensions (low power distance and high individualism), while the remaining four dimensions usually do not support innovation. The results confirm a well-known proposition that unfortunately the statistics presented in research studies often do not tell the entire story and need to be followed by multifaceted interpretation of survey results.

Considering the ambiguities in the results, the authors in the last shorter part of the book titled *An alternative approach to studying innovation culture* move beyond Hofstede’s model and present the ideas proposed by Croatian researchers on the links between culture and innovation. The plentiful research into the reasons for Croatia’s economic performance lagging behind and weak innovation and entrepreneurship development in comparison to other new EU members could be grouped into two main types: the path dependence processes or social values inherited from socialism, while the other approach focuses on the characteristics of clientelist capitalism heavily burdened with corruption. According to the first group, the deficits in innovation culture and technological progress in the communist societies are the result of a totalitarian bureaucratic dictatorship, which had eradicated competition. The other explanation is related to the widespread corruption and crony capitalism in which entrepreneurial activities are more prone to political connections and rent seeking than to entrepreneurial efforts and risk taking.

The authors of the book, Jadranka Švarc and Jasminka Lažnjak, give an interesting and notable account of the influence of cultural determinants on innovation development. Building on the key findings from the study, future research should propose a set of recommendations for the improvement of the situation in Croatia. Undoubtedly, this book provides sufficient information and analysis to stimulate more academic and practitioner research as well as public policy activities with regard to the important topic of innovation development. One ought to congratulate the authors for their extraordinary achievement in analysing the innovation culture in the circumstances of crony capitalism.